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THE ENTREPRENEURIAL ELEMENT IN ECONOMIC DEVELOPMENT

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1. Much has been written on entrepreneurship in the literature concerning economic growth, and this variable customarily is designated as a pertinent factor in economic development. Although there have been case studies of the emergence of entrepreneurship in several developing countries, generalizations on entrepreneurial roles and contributions have been rare; there is even some uncertainty as to the proper definition of the concept. This paper suggests some general principles relating to the performance of entrepreneurial functions in the process of economic growth, in general, and in the developing countries, in particular.

2. The definition of entrepreneurship, as of many other concepts in economics, does not lend itself to uniformity. Entrepreneurs are classed by some primarily as innovators; others regard them as managers of enterprises, and bearers of risks; some place major emphasis on their functions as mobilizers and allocators of capital. Joseph Schumpeter, in 1912, expressed the view that the specific role of entrepreneurs is in the carrying out of innovations. Schumpeter wrote at a time when most entrepreneurial performance was in the hands of private individuals, and government and private bureaucracies still played a relatively limited part in the running of economically significant enterprises. In the past 50 years, however, the corporation and other highly structured public units perform more and more of the main entrepreneurial function in countries whose economy is traditionally based on free enterprise. In socialist countries public officials working in government enterprises or government-controlled corporations may carry the entrepreneurial function; in the developing countries government officials may control some important branches of production. Hence, the individual, "irrational", visionary entrepreneur whom Schumpeter saw as the main carrier of economic progress has been largely replaced by a private or public "business leader" whose action may be based on known and predictable principles, whose risk has been greatly reduced, and whose activities are supported by a large corporation or a governmental agency. These functions have become so routine that the performance of the typical entrepreneurial functions stipulated by Schumpeter has become either impossible or superfluous.

3. The concept of entrepreneurship as advanced by Schumpeter has been modified in light of the developments in the last few decades, especially in Asian and African countries. Most of the business leadership in these countries is, or may be, carried out by managers of large private or public enterprises, or by small or medium-scale entrepreneurs. Scarcely any of these are innovators in the Schumpeter sense. The technology applied is usually borrowed from abroad. The legal and marketing practices are generally adaptations from more economically advanced countries. Often the commodities produced are imitations of the consumer goods of the more advanced nations.

4. In view of these considerations, it is necessary to modify Schumpeter's description of entrepreneurship and entrepreneurial functions. The person who typically performs this function in developing countries today may be either a manager or one who adapts the experience of others in production methods, sources of supply, and markets to conditions prevailing in newly developing countries. In the subsequent discussion, we will be concerned primarily with individuals who are active as business leaders in the private sector. The facts of economic development in Asia and Africa seem to indicate that an important role in this process may be played by private entrepreneurs in small and medium-scale plants, provided a private enterprise sector is at all in existence. In addition, there must be within the framework of government plans for economic development some intention to develop "mixed economies" in which business and private enterprise combine for the improvement of the economic welfare.

5. In short, we are concerned with private entrepreneurs who are active in the small and medium-size industrial, commercial, and financial enterprises which are appearing or will appear in the economically less developed nations. Many of the entrepreneurial characteristics will also apply to persons in positions of business leadership in the public sector. In some cases the differences that result from the different responses of the private and public business leaders will be pointed up.

6. It may be useful to cite a few figures indicating the general significance of small and medium-scale private entrepreneurs in the process of industrialization and general economic growth in developing countries. If we classify industrial establishments in terms of the number of workers employed and assign enterprises employing fewer than 50 persons to the class of small and medium-scale plants, we find the following data from the economic experiences of some Western European countries: in Austria, in 1930, 57.7 percent of the total labor force in secondary production (manufacturing, mining, and construction) worked in firms employing fewer than 50 workers. The corresponding figures for other countries were as follows: in France, in 1906, the percentage was 70.6; in Germany, in 1907, it was 54.5; in Switzerland, in 1955, it was 43.7; and in Norway, in 1953, it was 51.3. From these figures it becomes apparent that small and medium-sized plants have played an important part in industrial countries, and that even long after the onset of the industrialization process the majority of workers in secondary production were employed in these "small" firms. The corresponding proportions for commercial activities, especially retail trade, and for financial activities, except investment banking and modern types of insurance,are probably much higher than those in secondary industries. In brief, the small and medium-scale firm can be said to have played an important part in the more highly developed countries and may be expected to play an important part in the process of economic growth in the developing countries.

7. But there are still other reasons emphasizing these enterprises in developing countries, especially those with dense populations and large labor supply. It is quite customary, when we think of industrial development in the new nations, to evoke the picture of a large scale industrial plant; e.g., in steel or cement production. But the existing markets, demand patterns, and conditions of comparative advantage in developing countries are such as to make the establishment of small plants, mainly producing light consumers' goods, most attrative. Hence, industrialization must be thought of in the next two or three decades not in terms of new Pittsburghs or Birminghams in the developing nations of Asia and Africa, but rather as a process in which small capital is allocated in various industrial and commercial fields. Although these units may increase in size, they will remain--from a world point of view--fairly small, or at best medium-sized, in their fields of economic activity. The reason for this stems from the very different relative supply of labor and capital, and particularly from the fact that capital

to be invested on a long-term basis is in very short supply and often unavailable through the ordinary channels. In other words, banks will ration credit to small entrepreneurs who wish to grow rapidly. Many enterprises may have to begin with meager capital funds and grow only to the extent to which they can reinvest their profits. In the industrial field the certainty that small and medium-scale enterprises in the developing countries will persist must be taken into account. In the light of Western Europe's historical experience entrepreneurs on the small and medium scale will have important roles for several decades.

8. Up to this point no distinction has been drawn between the different areas of economic activity in which entrepreneurship is exercised. Moreover, in the literature of entrepreneurship little or no distinction has been made usually among the fields of entrepreneurship. Yet, a superficial study of business leaders in many developing countries shows that industrial entrepreneurship falls far short of the degree to which commercial and financial entrepreneurship flourishes. Why do we find in so many developing countries no dearth of moneylenders and traders but so few indigenous industrialists? For example, in almost all the new Nations of West Africa, there are extended networks of trade in which Africans, persons of Middle Eastern origin, and other Mediterranean people participate. Yet few of these persons engage in industrial pursuits. A similar situation is noticeable in several East African countries and in various parts of Southeastern Asia. Various arguments have been raised to explain this phenomenon. Foremost is the fact that local industrialists, especially in former colonial areas, were unable to compete with the powerful enterprises set up by Europeans. A similar argument may be made for those developing countries which were politically independent but whose potential entrepreneurs faced the overwhelming competition of foreign investors. Most European foreign investments were concentrated in such basic industries as mining, transport, and power, and only small proportions of private foreign capital flowed into manufacturing. A look at the kind of enterprises which entrepreneurs established in trading and moneylending fields shows that they were often supplementary to the similar activities of European firms. The small indigenous traders and moneylenders had to find their places in the unoccupied interstices of the economic system. They mediated between the urban centers and the countryside; they provisioned small retailers; they serviced the financial needs of rural and semi-rural populations unable to offer bankable securities; and they distributed commodities on a scale that would have been uneconomical for the large foreign enterprises.

9. Why do we not witness similar developments in the industrial field? Clearly we should not expect that the small indigenous entrepreneurs would have competed with the large foreign mining or transport companies. There were and are, however, numerous industrial branches in which ample opportunities exist for the establishment of small and medium scale plants providing for the role of trader and moneylender with regard to the foreign import houses, wholesalers and bankers. This difference in behavior in different economic fields by indigenous entrepreneurs stems from the fact that economic development everywhere is tied, to a substantial degree, to the growth of industry. In mixed economies industrial growth is confined to a few large establishments, mainly in the field of heavy industry. However, highly significant is the rapid growth of many small and medium-scale firms producing consumer goods and offering services. Hence, the gaining of a clearer insight into the different conditions under which industrial, as against commercial and financial, entrepreneurship may flourish in a developing country may be an important guide for over-all economic policies.

10. A reason advanced for the sluggishness of industrial entrepreneurship in developing countries turns on the talents required to guide an industrial enterprise. These talents differ from those needed for most successful commercial or financial dealings. A small trader or moneylender can operate successfully with only a few, and often without any, permanently employed assistants, but the

industrial entrepreneur--provided he is more than a craftsman or artisan--usually must hire men or women whose work he must organize and guide. In short, we may presume that an industrial entrepreneur must have a broader range of abilities than a moneylender or trader. He must be a person who can lead others in a common enterprise and he must have technical knowledge in his branch of production.

11. Another distinction between industrial entrepreneurs and financial or commercial entrepreneurs is found in the commitment of assets in the production process. A trader may carry on his operation without ever attaining property rights to the object he deals with; if he is a broker or commercial agent, he may merely lose his earnings from a transaction but not the capital invested in it. In addition, the capital that a trader, or moneylender, does invest has a faster turnover normally than that invested in an industrial establishment. Moreover, a moneylender or banker deals in a commodity that has the widest currency, that is accepted by everyone, and that can be easily transported, hidden, or converted into other assets. On the other hand, an industrial entrepreneur usually has a much larger proportion of his assets tied up in fixed capital. He often depends on an imperfect market for the sale of his output; his profit is exposed to dangers which moneylenders or traders sometimes escape. Other things being equal, the risk of transforming a given amount of capital into industrial assets is much greater than in trading or financial operations. A commitment of one's property to investment in industry normally implies a longer-term commitment, and this increases the uncertainty. There is less flexibility in an operation once capital has taken the form of fixed assets, and the prospective profitability of an enterprise is more directly influenced by changes in taste and fluctuations in demand than is true for capital invested in commerce or finance.

12. Thus, entrepreneurship depends partly upon the appearance of persons with a psychological make-up for entrepreneurial activity, and partly on the social and economic environment that would make it an attractive venture to such individuals. Since many developing nations wish to create a climate favorable for the rapid development of entrepreneurship, especially industrial entrepreneurship, a detailed discussion of the ways in which these personal and environmental conditions can be enhanced may be helpful. The significance of the psychological dispositions for entrepreneurial activity is quite clear from the preceding discussion. Some writers have made these personality factors the fully determining conditions of economic innovations and economic growth, but this appears perhaps too extreme a position. There is little doubt that features in the environment can be manipulated with much more predictable outcomes than can the shaping of personality development. In brief, we may consider that certain conditions in the economy will make possible the successful exercise of entrepreneurial functions regardless of the relative abundance or scarcity of certain personality types.

13. These conditions of the economy may be classified as consisting, on the one hand, of certain forms of social and economic overhead capital, and, on the other, of certain governmental services which are placed at the disposal of entrepreneurs. One such condition is the maintenance of law and order. Involved here are the distribution of status and political power, the manner in which power affects entrepreneurial functions and the business community's part in the making of political decisions. A system of private enterprise can exist only if the following basic conditions in the legal-political field are met:

(a) Governmental action short of complete non-intervention but so designed that it does not deny to private persons, explicitly or implicitly, any kind of autonomy in decision-making in the economic field.

(b) A minimum provision of legal, and legally enforceable, institutional rules according to which private economic decisions can be made and implemented.

(c) Protection of the assets owned by an enterprise against expropriation by others, and protection of the contractual relationships entered into by business leaders with one another or with outsiders.

14. These conditions in some historical situations have been forced upon governments by the political action of business leaders and their political allies. The Industrial Revolution, whether it arose gradually through a process of legal and political reform, as in Britain, or was strongly supported by a political revolution, as in France in 1789, generally altered the prevailing legal and political system--a lessening of arbitrary privileges in the economic area for the aristocracy, no more special treatment of certain privileged groups, wider access to the elite from the ranks of the business community, and a forum (Parliament or some less visible arena) in which pressures by business leaders for legislation in support of their most important needs could be exercised. In other countries the processes by which this greater participation and protection of the entrepreneurial community were achieved differed. In Germany a political alliance was concluded between the aristocratic junkers and the interests of industrial enterprise. In many of the ex-colonial countries the development of entrepreneurship--the pattern which Max Weber called "pariah entrepreneurship" was based largely on a European system of legal security and predictability imposed upon these countries. In Japan, finally, this system was attained with a minimum modification of the social structure, primarily because the elite were persuaded to realization of the nation's needs and to the wisdom of adopting Western technology and economic organization.

15. The crucial lesson of these instances teaches that private entrepreneurship will develop only if the legal order provides the necessary accommodation for the needs and protection of entrepreneurial activity. Accommodation must include not merely the promulgation of a "neutral" system of laws, but also the shaping of institutions through which entrepreneurs can exert pressure on actions of the state and especially upon legislation. In the change, entrepreneurial performance may rise to a level where it can provide not wealth alone but also social status and some form of political influence. But if those favorable conditions are not created, other outcomes are possible. One is socialization of all enterprise, the government assuming all decisions in the economic realm, the establishment, in short, of a fully planned economy after abolition of private enterprise. A second possibility is the establishment of a system of statism, such as existed in Turkey in the inter-War period, in which private enterprise nominally exists but actually functions under the full direction of the Government. A third is the neglect of enterprise altogether and subsequent stagnation of the economy. Thus, the creation of a "climate of entrepreneurship" has not only economic and social dimensions, but also a political one.

16. In the establishment of a social structure conducive to the development of entrepreneurship, the feature of economic overhead capital must not be overlooked, since provision of this capital influences the development of entrepreneurship in a positive direction. Most important is provision of power for industry and of transport facilities. These two are perhaps the most significant items in the vast variety of economic overhead capital whose presence in abundance encourages the growth of industrial and commercial enterprise. It is not necessary to enlarge on the importance of power; without it modern productive processes are impossible. Nor is it necessary to expand on transport facilities, since their lack has severely limited markets and prevented establishment of some industries. But it is paramount to state that the less developed a region is, the greater the need for a good transport network.

17. In this discussion of socio-economic environment we have moved from the most difficult features to the less difficult. The most significant and most difficult is the creation of an appropriate psychological and political structure for

entrepreneurial effort. Slightly less important and easier to provide, given the necessary financial resources, are facilities for power and transport. Easier still is the establishment of various government agencies to offer, either without charge or at low cost, services of importance to an entrepreneurial community. Among these services are information on markets, sources of supply, technical innovation, internal organization of plants, innovations in design, and other technical matters which the small and medium-scale entrepreneur in a developing country finds difficult to obtain on his own. Markets in most developing countries are too small and too confined to make the publication of technical and marketing journals attractive. Thus, business leaders must and often do rely upon government for this information.

18. In addition to the technical information of use to entrepreneurs, the government may offer other services at low cost or as a subsidy. These services may include assistance with accounting, long-term credit, and the provision of various types of technical education. The need for such services has been widely recognized and, in several developing countries, appropriate institutions have been created to supply them. The agencies charged with providing the services bear different names, but have been designated collectively as development banks or development corporations. Common to all these development corporations is the function of providing credit to entrepreneurs, particularly for long-term needs. In addition to the credit-financing function, the development corporations should provide technical and economic information useful to new entreprises in the earliest stages of their activity.

19. The development bank should have facilities to find out where the most suitable machinery can be purchased; to supply information on industrialists' markets, freight charges, insurance costs, and other expenses incurred in establishing new business. It will have better information than most traders. Its staff, after examination of production processes, can develop a system of accounting which will be relatively simple and accurate and will meet the needs of the entrepreneur at each stage of his operation. It may even establish a department to acquire machinery to sell to new firms on a hire-purchase plan. Finally, it may cooperate with new firms to find suitable locations and design work procedures and related patterns of practical operations which make for sound production and at the same time reduce the costs of productive operations.

20. In many developing countries in which industrial development banks have been established, financing activities are largely confined to larger-scale enterprises. This is understandable. The technical assistance these firms need is proportionately less than that needed by smaller firms. In most larger establishments the chief assistance needed by entrepreneurs is long-term credit. In smaller firms the chief requirement is advisory services of various kinds, in addition to credit. Also, the manpower training required, although it may be more extensive than training of managers of large private or public corporations, is oriented toward the economic, organizational and technological processes on which their enterprises are likely to concentrate. This suggests that the development of commercial, financial, and especially industrial entrepreneurship on a wider basis requires not only different approaches by banks and government information services but also by educational services.

21. Successful entrepreneurship, this paper has argued, implies the exercise of leadership, maturity of character, a sense of security and knowledge of, or familiarity with, the skills related to the entrepreneur's undertakings. The entrepreneur is a man with the broad view, as distinguished from the technical or economic specialist, but familiarity with technical aspects of production is helpful where it is not imperative. Here he differs from the expert of a large enterprise who is employed for his specialized or technical knowledge of production, purchasing, labor relations or other limited and well-defined spheres of action.

The entrepreneur in a small or medium-size plant must be more than a man with some knowledge of the production techniques employed in the plant; he must be also a a person who makes the chief decision relating to sales, supplies, production processes, relations with workers and numerous elements of business. Primarily he must display characteristics of personality and leadership, the willingness to take some risks and the desire to perform his role successfully.

22. Because of the basic personality characteristics essential to leadership, the training of the entrepreneur is of major significance. This is especially true in industry--as has already been pointed out--where the entrepreneur must be informed on matters relating to the technical processes. Education and on-the-job training in a growing establishment are prime sources for the acquisition of this information. For example, an entrepreneur who wishes to start a foundry outside his own country should be able to obtain access to an enterprise at home, if foundries are already in operation there. Otherwise, he should visit nearby developing countries which have foundries.

23. Up to this point we have been concerned with the analysis of external factors which may influence the growth and encouragement of entrepreneurship in developing countries. In the last resort, the appearance of entrepreneurs is a matter of changing human effort and human action. However, we must also consider certain aspects of recruiting and promoting a corps of entrepreneurs in developing countries. In dealing with this problem we are in one of the most disputed and uncertain areas of social research relating to developing countries. Opinions concerning the human factor in entrepreneurship range all the way from sheer resignation from the impossible task of dealing with this factor meaningfully, to the other extreme of prescribing elaborate schooling and training programs.

24. The psychological aspects of entrepreneurship have been treated principally by E. E. Hagen and D. C. McClelland, each stressing somewhat different characteristics. In brief, the generally accepted viewpoint on the psychological dimension in entrepreneurial action may be summarized as follows: The industrial entrepreneur, and in fact, the innovating entrepreneur in general, is a distinct personality type. He must be persuaded that change can occur and that it can be brought about by individual action. He also must be motivated to bring about this change by his own activity. This is why--as we have maintained earlier--the general standards of a society must allow persons with newly acquired wealth some access to power or prestige. If overwhelming social obstacles shut these rewards off from entrepreneurial action, persons with the appropriate personality disposition will fail to function successfully, will seek other careers or quit the country.

25. This sketch of the psychological conditions of entrepreneurship has followed largely in the footsteps of Schumpeter and those influenced by his views on the role of innovating entrepreneurs in economic development. The argument raised by Hagen and McCelland turns on the view that economic growth will occur only if individuals with characteristic entrepreneurial personalities appear in sufficient number; that is, if the appropriate motivations affect not merely a few persons, but penetrate deeply into all layers of society. According to this theory, the appearance of entrepreneurship on a mass basis can be explained as the result of two factors. First, it flows from a special historical situation in which new paths to higher social status are sought through economic achievement. Second, it is the result of the appearance in a society, with more than ordinary frequency, of persons with special personality traits; i.e., persons with unusually high achievement motivation.

26. McClelland and his students have shown that such persons existed at various periods in history when societies did undergo rapid economic development, and that not only these persons but the whole value system of the societies adopted a more

intensive preoccupation with achievement. This group of scholars also has shown that the drive of these persons is a result of their family rearing. But the very fact that a substantial number of entrepreneurs appeared in societies in which a short time ago little or no such talent seemed to be available, makes one suspect that individuals with the required ambitious drive exist in all human societies, though they may not always make their impact felt with the same intensity. If economic development and industrialization are planned as goals of a society as a whole, would-be entrepreneurs will step into a very different environment from that which prevailed in the historical epochs which McClelland and his students, Hagen, and even Schumpeter have investigated.

27. In the developing countries we meet nations which have written the slogan of economic growth on their banners and are prepared to provide the most extensive accommodation to persons who wish and who can step into positions of entrepreneurship. Moreover, from the great number of traders scattered about the urban and rural areas of almost all developing countries, we may deduce that individuals who exhibit achievement-oriented personalities are available in developing societies. What is required is not so much the creation of new personality types, but rather the opening up of opportunities in the social, economic, and political environment, in the scale and impact of government services, and in the intellectual equipment and training of the persons concerned.

28. The application of rational principles of planning to the fostering of economic growth will usually be reflected in a mixed-economy; i.e., one in which both government and private enterprise undertake parallel and combined efforts for the over-all economic growth of the nation. This pattern of cooperation and division of functions is appropriate to developing countries, because an underdeveloped economy cannot afford to be doctrinaire. It faces serious shortages of all kinds and it must, in order to experience economic growth, confront the serious business of getting things done--getting capital accumulated and invested in the most useful directions for economic growth. Given widespread backwardness among large masses of the population and urgent desire for economic development, the leadership of the government is essential to an economy which otherwise might remain almost completely stationary. This cooperation between public and private interests may have two results: on the one hand, all available means must be employed to encourage and enhance the rate and amount of savings in the economy and, on the other, the most efficient channels must be used to allocate these savings among those branches of production in which the over-all net return to the economy will be greatest. It is within this context that a centrally prepared plan has manifold uses, and if such a plan is well conceived and based upon the existing moral and political rules of the society, it may have a crucial influence in the growth of the economy. But if the general moral and political rules of a nation recognize the right and, in fact, the necessity of private enterprise, the plan will be successful only if it makes due allowance for the exercise of private initiative in all or a large number of fields of economic action.

29. That it is possible to combine an over-all economic development program with the simultaneous encouragement of private enterprise and the fostering of an entrepreneurial class is abundantly demonstrated in the many cases on record in both developed and less developed nations. This does not mean that frictions will not arise between the business community and the planners. There will be conflicts over the merits of short-term gains as against maximum long-term growth rates; the division of decision-making functions between public and private agencies; the precise limits of what industrial functions should be reserved to the government. Though--as was pointed out earlier--the business leaders will want and must get some access to the realm of political decision-making, they must learn, on their part, that a governmental development plan is not an instrument which robs them of all freedom of action. It merely designates, from the point of view of over-all economic considerations embracing the society as a whole, the paths of progress and the primary

patterns of investments which are considered most conducive to progress in the economic performance of a society. This will imply regulations and even restrictions on the free exercise of entrepreneurship but may nevertheless conform to the long-run interest of many entrepreneurs, since in many developing countries the differences between social costs and benefits, on the one hand, and private costs and benefits, on the other, are often substantial.

30. These remarks are intended to reconfirm the fact that entrepreneurship can play a vital role in a planned economy of a developing country, provided the development plan is drawn up in such a way as to provide room for the operations of private entrepreneurs, and provided these entrepreneurs are not dismayed or frightened from making independent decisions even though many decisions relating to production and investment are reserved for, or regulated by, government. It is quite conceivable that the mixed economy as it takes shape in many developing countries, may grow gradually into a new form of "economic system" with its own distinctive characteristics, one of which would be collaboration between public officials and private entrepreneurs in the development of the economy. The ultimate outcome most highly prized by both public officials and business leaders in a developing nation is economic development. Growth and improvement in the performance of the public sector stimulate demand for the output of private entrepreneurs. Also increase in output and improvement in the quality of goods and services supplied by private firms adds to the standard of living and the material welfare of the population at large. Hence, from a secular viewpoint the interests of government, of the newly emerging entrepreneurial class, and of the mass of the population in a developing nation are closely parallel. The main problem is to find a formula by means of which this parallelism of interests can be put into effect with least friction and greatest likelihood of success.

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